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Romania: A Vigorous Economy  
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MEMORANDUM FOR: Mr. Ivan Matussek  
Chief, EE/INR  
State Department

Enclosed is our contribution to  
the briefing book for Secretary of  
State Kissinger's visit to Romania.

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Office of Economic Research

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### Romania: A Vigorous Economy

1. Romania boasts one of the highest growth rates in Europe -- an average of 7% since 1960. Tight central control, self-sufficiency in foodgrains and fuel, and the marketability of its exports in the Industrial West have permitted the Ceausescu regime to pursue nationalistic economic policies even in the face of opposition by the USSR. The price of success has been a sharp increase in debt to the West, now standing at more than \$2 billion.

2. Even with this growth, Romania remains among the poorest countries in Eastern Europe, as measured by per capita GNP in 1973:

East Germany . . . . .	\$2,870
Czechoslovakia . . . . .	2,710
Hungary . . . . .	1,850
Bulgaria . . . . .	1,830
Poland . . . . .	1,820
ROMANIA . . . . .	1,630
Yugoslavia . . . . .	1,200
Albania . . . . .	600

### Industry and Agriculture

3. Industrial output has grown rapidly from a small base, featured by advances in machine-building (petroleum equipment especially), chemicals (fertilizer and petrochemicals), oil-refining, and synthetic textiles. Agriculture is also being expanded and modernized but at a much slower pace. Output has been cut because of poor weather in 1973 and 1974. This year's corn crop was hardest hit -- perhaps 10% lower than in 1973 and 30% below the record 1972 crop. The bad harvest will force unanticipated imports of feedgrains and will reduce wheat exports. Romania thus will be hard pressed to remain a net exporter of grain in FY 75.

### Foreign Trade

4. Romania is the only Warsaw Pact nation conducting more than 50% of its foreign trade with non-socialist nations. Its socialist trading partners remain important sources of raw materials (coal, asbestos, etc.) and a market for Romanian machinery. Trade with the West has more than doubled since 1970, with exports growing faster than imports. Even so, Romania continues to run a hard currency deficit -- in 1973 about \$195 million -- as it pushes development by importing technology from the West.

5. The result of these chronic deficits has been a mounting hard currency debt, estimated at \$2.3 billion at

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year end 1973. West Germany holds about one-third of the debt, followed by the UK and France. According to the IMF, Romanian payments of interest and principal this year will be \$775 million or approximately half of its hard currency exports. Bucharest seems able to manage this high debt service ratio and shows no sign of curbing imports. Indeed, the government has arranged further credits. Within the past year, the World Bank has supplied \$190 million for three long-term loans, and the IMF has chipped in with \$114 million in short-term assistance. Romania also has solicited funds in the Middle East hoping to share in the recycling of Mid-East oil revenues.

### Trade with the US

6. By mid-1974, Romanian trade with the United States had already surpassed the total for 1973, the result of rising prices and stepped-up deliveries of US machinery. Through July, trade was \$276 million, with Romanian imports of \$178 million and Romanian exports of \$98 million. Imports already exceed the total for last year by \$100 million and exports are running about \$20 million above the 1973 total, led by sales of petroleum products.

7. Romania sees the United States as a source of modern equipment and technology on favorable credit terms. Major negotiations underway include US participation in Black Sea oil exploration and purchases of US chemical equipment and machine tool technology. Bucharest also is seeking US coking coal; it currently is experiencing contract and delivery difficulties with Consolidation Coal. To finance purchases of US goods, Romania has used Eximbank credits having drawn about \$24 million out of authorization of \$47 million. An additional \$47 million has been supplied by private banks.

### CCC Credits

8. Romania is requesting \$50 million in Commodity Credit Corporation loans to finance imports of 340,000 metric tons of US feedgrains. Earlier this summer Bucharest received CCC credits of \$31 million for US feedgrains. Stocks of feedgrains, together with this year's production, probably are not sufficient to see Romania through to the next harvest. In the absence of credits, Bucharest may be forced to cut back its livestock goals.

### Defaulted Bonds

9. Romania has agreed to make a preliminary payment of 2.5% on \$7.5 million of the defaulted bonds issued by

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the Kingdom of Romania in the 1920s. Further negotiations are slated next year. Bucharest feared that future World Bank development loans would be withheld if some movement was not made on this issue.

Most-Favored-Nation Status

10. Romania seeks MFN status for both political prestige and the improvement of its trade balance with the US. A recent US Tariff Commission study estimates that about one-half of Romania exports to the US are subject to tariffs, which on the average raises the prices of these goods 20% above the MFN rate.

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